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MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

September 30, 2014

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MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

September 30, 2014

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APPOINTIVE OFFICIALS

Angela Wong, Lottery Director

John Tarr, Lottery Assistant Director for Security

LOTTERY COMMISSION		TERM EXPIRES
Tom Keegan	Helena	January 1, 2018
Wilbur Rehmann	Helena	January 1, 2017
Leo Prigge	Butte	January 1, 2015
Cindy Hiner	Deer Lodge	January 1, 2017
Frank DiFonzo	Sidney	January 1, 2017

REPORT DISTRIBUTION

According to Section 23-7-202(9), MCA, copies of this report must be distributed to the following:

Governor – Steve Bullock
Director of Dept. of Administration – Sheila Hogan
Legislative Auditor – Tori Hunthausen
President of the Senate – Jeff Essmann
Speaker of the House – Mark Blasdel

The law also states "the President of the Senate and the Speaker of the House will determine the report distribution to each member of the appropriate committee of each house of the legislature". The President of the Senate and the Speaker of the House have requested that this report be distributed to the following committees:

HOUSE – State Administration Committee

Pat Ingraham, Chair
Ted Washburn, Vice Chair (R)
Bryce Bennett, Vice Chair (D)
Liz Bangerter
Joanne Blyton
Clarena Brockie
Frosty Calf Boss Ribs
Pat Connell
Bill Harris
Greg Hertz
David Howard
Doug Kary
Jesse O'Hara
Jean Price
Casey Schreiner
Ray Shaw
Kathy Swanson
Gordon Vance
Franke Wilmer

HOUSE – Business & Labor Committee

Tom Berry, Chair
Dan Salomon, Vice Chair (R)
Carlie Boland, Vice Chair (D)
Christy Clark
Amanda Curtis
Steve Fitzpatrick
Edward Greef
Roger Hagan
Chuck Hunter
Mike Lang
Jonathan McNiven
David Moore
Reilly Neill
Rae Peppers
Gordon Pierson
Scott Reichner
Cary Smith
Carolyn Squires
Tom Steenberg
Jeffrey Welborn

SENATE – State Administration Committee

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Dee Brown, Vice Chair (R)
Anders Blewett
Larry Jent
Scott Sales
Kendall Van Dyk
Roger Webb

SENATE – Business, Labor, & Economic Affairs Committee

Jon Sonju, Chair
Verdell Jackson, Vice Chair (R)
Elsie Arntzen
Debby Barrett
Dee Brown
Tom Facey
Eric Moore
Sharon Stewart-Peregoy
Kendall Van Dyk
Gene Vuckovich

Montana LOTTERY
For the fun of it! 2525 N. Montana, Helena, MT 59601 • P: 406-444-5825 • F: 406-444-5830

December 2014

Montana Lottery Commission:

The past quarter has been an active one. We have had a busy fall with our football events, another installment of the Montana Millionaire game, along with our new EZ play games.

We are off to a good start for the year in game sales. Scratch, Montana Cash, Hot Lotto, Mega Millions, and EZ play sales each experienced an increase over last year's first quarter. Scratch sales were 8.1% higher, Montana Cash increased by 37.6%, Hot Lotto sales were up by 22.4%, Mega Millions sales were 15.3% higher, and EZ play sales increased by 7.0%.

The rest of the games have seen a decrease compared to last year at this time. Powerball sales were 38.2% lower, Wild Card sales were 15.9% lower, and 10 Spot sales dropped by 6.8%.

Overall, there was a small decrease in operating revenue of 7.8% along with a decrease in direct game costs of 6.5%. Combined with a 8.2% increase in operating expenses, the transfer for the first quarter was $2,554,851, which is $513,111 less than last year at this time. The percentage of transfer to revenue was 21.1% this quarter compared to 23.4% last year's first quarter.

The Lottery plans to introduce 40+ new scratch games during the fiscal year 2015. We plan to continue building scratch sales through innovative game themes and offering games with built-in name recognition (licensed property games).

We are looking forward to a busy winter with another season of Fantasy Football and Montana Millionaire, along with the introduction of new EZ play games.

Sincerely,

Angela Wong

Angela Wong
Director

MONTANA LOTTERY
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014 AND 2013
(Unaudited)

	Period Ended September 30, 2014	Period Ended September 30, 2013
ASSETS:		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 3,061,843	$ 6,421,600
Receivables (Net)	2,164,441	1,805,874
Inventories	568,794	387,827
TOTAL CURRENT ASSETS	5,795,078	8,615,301
NONCURRENT ASSETS		
Computer, Furniture & Equipment	2,981,106	2,981,106
Leasehold Improvements	59,781	45,448
Accumulated Depreciation	(2,211,844)	(1,699,948)
Multi-State Reserve fund	1,396,105	1,678,956
TOTAL NONCURRENT ASSETS	2,225,148	3,005,562
TOTAL ASSETS	$ 8,020,226	$ 11,620,863
LIABILITIES:		
CURRENT LIABILITIES		
Accounts Payable	$ 262,262	$ 530,439
Estimated Prize Liability	2,211,165	4,529,750
Transfer Obligations	2,554,851	3,067,962
Deferred Revenue	218,104	224,229
Accrued Compensated Absences	95,320	144,176
Current Portion Long-Term Obligations	72,168	72,168
TOTAL CURRENT LIABILITIES	5,413,870	8,568,724
NONCURRENT LIABILITIES		
Multi-State Prize Liability	1,223,081	1,471,818
Accrued Compensated Absences	93,500	18,557
Long Term Obligations	36,084	108,252
Other Post Employment Benefits	698,819	589,890
TOTAL NONCURRENT LIABILITIES	2,051,484	2,188,517
TOTAL LIABILITIES	7,465,354	10,757,241
NET POSITION		
Net Investment in Capital Assets	720,791	1,146,186
Unrestricted	(165,919)	(282,564)
TOTAL NET POSITION	$ 554,872	$ 863,622

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE QUARTERS ENDED SEPTEMBER 30, 2014 AND 2013
(Unaudited)

	Quarter Ended September 30, 2014	Quarter Ended September 30, 2013
OPERATING REVENUES:		
Scratch ticket revenue	$ 4,316,366	$ 3,992,043
Powerball revenue	3,136,729	5,078,187
Montana Cash revenue	1,169,968	850,438
Wild Card revenue	413,230	491,391
Hot Lotto revenue	989,247	808,081
Mt. Millionaire revenue	0	0
Mt. Sports Action revenue	831	741
Mega Millions revenue	992,338	860,685
10 Spot revenue	155,306	166,565
EZ Play revenue	918,750	858,630
License, permits, and misc	540	6,643
Total Operating Revenues	12,093,305	13,113,404
Less Direct Game Costs:		
Scratch ticket prize expense	2,756,453	2,480,334
On-line ticket prize expense	4,235,723	4,885,425
Retailer commission	713,301	739,233
Cost of tickets sold	73,847	203,233
Vendor fees	713,383	777,951
Total Direct Game Costs	8,492,707	9,086,176
Income Before Operating Expenses	3,600,598	4,027,228
OPERATING EXPENSES:		
Advertising	14,569	70,834
Advertising Production	38,273	65,416
Audit Fees	4,143	5,204
Bad Debts Expense	0	(4,760)
Communications	29,687	33,610
Contractual Services	15,072	15,124
Depreciation and Amortization	126,753	128,872
Interest	1,729	2,766
Administrative Service Fee	16,205	16,238
Multi-State Dues	31,074	44,308
Public Relations	57,165	26,897
Other	7,475	5,512
Personal Services	545,463	439,226
Repairs and Maintenance	4,689	2,831
Supplies and Materials	58,607	127,160
Travel	16,458	18,013
Utilities and Rent	156,152	41,291
Total Operating Expense	1,123,514	1,038,542
Operating Income	2,477,084	2,988,686
NONOPERATING REVENUES (EXPENSES)		
Interest earnings	579	2,088
Total Nonoperating Revenues(Expenses)	579	2,088
Income Before Operating Transfers	2,477,663	2,990,774
Operating Transfers Out - General Fund	(2,554,851)	(3,067,962)
Total Operating Transfers	(2,554,851)	(3,067,962)
CHANGE IN NET POSITION	(77,188)	(77,188)
Total Net Position, Beginning of Period	632,060	940,810
TOTAL NET POSITION, END OF PERIOD	$ 554,872	$ 863,622

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
AND RECONCILIATION OF BUDGET AND ACTUAL (BUDGETARY BASIS) TO GAAP BASIS
FOR THE QUARTER ENDED SEPTEMBER 30, 2014
(Unaudited)

	Budget Fiscal Year July 1, 2014 - June 30, 2015	Actual Three Months Ended September 30, 2014 (Unaudited)	Actual as a Percent of Final Budget (%)
REVENUES:			
Scratch ticket revenue	$ $16,800,000	$ 4,316,366	25.69
Powerball revenue	16,500,000	3,136,729	19.01
Montana Cash revenue	3,800,000	1,169,968	30.79
Wild Card revenue	2,050,000	413,230	20.16
Hot Lotto revenue	3,100,000	989,247	31.91
MT Millionaire	2,700,000	0	0.00
MT Sports Action (Admin Fees)	6,000	831	13.85
10 Spot	550,000	155,306	28.24
Mega Millions	4,000,000	992,338	24.81
EZ Play revenue	4,000,000	918,750	22.97
License, permits, and miscellaneous	15,000	540	3.60
Total Revenues	53,521,000	12,093,305	22.60
DIRECT GAME COSTS:			
Prizes - Scratch ticket	10,542,000	2,756,453	26.15
Prizes - Lotto games	18,700,000	4,235,723	22.65
Prizes - MT Millionaire	1,510,000	0	0.00
Retailer commissions	3,055,000	713,301	23.35
Ticket cost - scratch games	910,000	73,847	8.12
Ticket cost - vendor fees	3,103,000	713,383	22.99
Total Direct Game Costs	37,820,000	8,492,707	22.46
OPERATING EXPENSES:			
Advertising	456,251	14,569	3.19
Advertising Production	220,000	38,273	17.40
Audit Fees	75,405	4,143	5.49
Communications	140,584	29,687	21.12
Contractual Services	88,367	15,072	17.06
Interest	5,360	1,729	32.26
Administrative Service Fee	64,820	16,205	25.00
Multi-State Dues	50,000	31,074	62.15
Public Relations	65,000	57,165	87.95
Other	68,851	7,475	10.86
Personal Services	2,031,345	545,463	26.85
Repairs and Maintenance	27,850	4,689	16.84
Supplies and Materials	192,822	58,607	30.39
Travel	64,625	16,458	25.47
Utilities and Rent	690,943	156,152	22.60
Equipment	28,000	0	0.00
Total Operating Expenses	4,270,223	996,761	23.34
Operating Income	11,430,777	2,603,837	22.78
NONOPERATING REVENUES (EXPENSES):			
Interest Earnings	5,000	547	10.94
NET INCOME (BUDGETARY BASIS)	$ 11,435,777	$ 2,604,384	22.77
RECONCILIATION OF BUDGETARY/GAAP BASIS:			
Capitalized equipment purchases	28,000	0	0.00
Adjustment for depreciation expense	(514,016)	(126,753)	24.66
Bad Debts	0	0	0.00
MUSL interest earnings	2,000	32	1.60
Total Reconciling Items	(484,016)	(126,721)	
NET INCOME (GAAP BASIS)	$ 10,951,761	$ 2,477,663	22.62

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY

ANALYSIS OF REVENUES AND EXPENSES BY PRODUCT

FOR THE QUARTER ENDED SEPTEMBER 30, 2014

(Unaudited)

	SCRATCH	POWERBALL	MONTANA CASH	WILD CARD	HOT LOTTO	MT. MILLIONAIRE	MEGA MILLIONS	10 SPOT	EZ PLAY	MT SPORTS ACTION	ADMIN
REVENUES:	$ 4,316,366	$ 3,136,729	$ 1,169,968	$ 413,230	$ 989,247	$ 0	$ 992,338	$ 155,306	$ 918,750	$ 831	$ 540
DIRECT GAME COSTS:											
Prize Expense	2,756,453	1,519,716	650,427	228,481	484,990	0	480,493	86,901	780,735	0	3,980
Retailer Commissions	324,435	156,853	58,522	20,673	49,483	0	49,633	7,765	45,937	0	0
Cost of Tickets Sold	73,847	0	0	0	0	0	0	0	0	0	0
Vendor Fees	248,924	187,583	71,131	26,910	60,543	0	56,513	9,026	52,753	0	0
NET OPERATING REVENUE	912,707	1,272,577	389,888	137,166	394,231	0	405,699	51,614	39,325	831	(3,440)
OPERATING EXPENSES:											
Advertising	6,890	3,082	131	131	131	0	3,082	131	131	0	861
Advertising Production	6,168	6,168	6,800	4,273	3,545	5,404	5,915	0	0	0	0
Audit Fees	0	0	0	0	0	0	0	0	0	0	4,143
Bad Debts	0	0	0	0	0	0	0	0	0	0	0
Communications	11,645	0	0	0	0	0	0	0	0	0	18,042
Contractual Services	0	0	0	0	0	0	0	0	0	0	15,072
Depreciation and Amortization	24,081	11,408	11,408	8,873	8,873	11,408	3,803	3,803	3,803	15,210	24,083
Interest	0	0	0	0	0	0	0	0	0	0	1,729
Administrative Service Fee	4,051	1,621	1,458	1,134	1,134	972	486	486	486	972	3,403
Multi-State Dues	0	21,683	0	2,209	3,381	0	3,800	0	0	0	0
Public Relations	8,469	790	790	790	790	0	790	790	790	0	43,166
Other	213	0	0	0	0	0	0	0	0	0	7,262
Personal Services	136,366	54,546	49,092	38,182	38,182	32,728	16,364	16,364	16,364	32,728	114,547
Repairs and Maintenance	0	0	0	0	0	0	0	0	0	0	4,689
Supplies and Materials	0	5	5	5	5	0	5	5	5	0	58,569
Travel	2,218	316	317	317	317	0	317	317	317	0	12,022
Utilities and Rent	759	191	191	191	191	0	191	191	191	0	154,060
TOTAL OPERATING EXPENSES	200,860	99,810	70,192	56,105	56,549	50,512	34,753	22,087	22,087	48,910	461,648
OPERATING INCOME	711,847	1,172,767	319,696	81,061	337,682	(50,512)	370,946	29,527	17,238	(48,079)	(465,088)
NONOPERATING REVENUES (EXPENSES)											
Interest Earnings	0	0	0	0	0	0	0	0	0	0	579
OPEB Expenses	0	0	0	0	0	0	0	0	0	0	0
TOTAL NONOPERATING REVENUES (EXPENSES)	0	0	0	0	0	0	0	0	0	0	579
NET INCOME BY PRODUCT	$ 711,847	$ 1,172,767	$ 319,696	$ 81,061	$ 337,682	$ (50,512)	$ 370,946	$ 29,527	$ 17,238	$ (48,079)	$ (464,509)
PROFIT AS A % OF REVENUE	16.49%	37.39%	27.33%	19.62%	34.14%	N/A	37.38%	19.01%	1.88%	N/A	N/A

NOTE: THIS IS 'THREE MONTHS' ACTIVITY AND THEREFORE SHOULD NOT BE INTERPRETED TO SHOW HOW OUR PRODUCTS HAVE PERFORMED IN PAST YEARS OR WILL PERFORM IN THE FUTURE.

MONTANA LOTTERY
Notes to the Financial Statements (Unaudited)
September 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity.

The Montana Lottery, established under the provisions of Section 23-7-101, Montana Code Annotated (MCA), was approved by the Montana electorate through Legislative Referendum No. 100 on November 4, 1986.

Montana's first lottery tickets went on sale June 24, 1987.

The Montana Lottery is operated by a five-member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set the ticket price, number and size of prizes, conduct lottery drawings, enter into agreements to offer lottery games in conjunction with other lottery states and countries, and prepare financial reports. The Montana Lottery is attached to the Montana Department of Administration for administrative purposes.

The Montana Lottery is included as an enterprise fund in the State of Montana's Comprehensive Annual Financial Report. In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Montana Lottery's financial statements as a reporting entity.

Basis of Presentation. The Montana Lottery reports its financial activity in accordance with generally accepted accounting principles (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB).

Enterprise Fund. The Montana Lottery is classified as an Enterprise Fund of the Proprietary Fund Type. Enterprise Funds account for operations: a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Basis of Accounting. The Montana Lottery's financial statements are prepared using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Property and Equipment. Property and equipment are recorded at cost. Donated property and equipment are recorded at their estimated fair market value at the date of donation. Ordinary maintenance and repairs are charged to operations as incurred; major renewals and betterments are capitalized. Upon disposition or retirement of property and equipment, the cost and related accumulated depreciation or amortization are removed from the accounts. Gain or loss on disposal is reflected in non-operating revenues and expenses. Depreciation and amortization are calculated on a straight-line basis over estimated useful lives of three to ten years. The Lottery conforms to the State of Montana capitalization threshold for capitalizing property and equipment as well as buildings and building/land improvements. The threshold for capitalizing property and equipment is $5,000 and the threshold for capitalizing buildings/land improvements is $25,000.

Revenue Recognition. Lottery scratch ticket sales are recorded as revenue based on the time the retailer activates the pack of tickets for sale. In accordance with an established policy, retailers may return unsold tickets to the Lottery for credit. Sales are decreased by an allowance for estimated ticket returns.

Ticket sales for lotto games Powerball, Wild Card, Montana Cash, Hot Lotto, Montana Millionaire, Mega Millions, and 10 Spot are recorded as revenue based on drawings. Tickets sold in advance for future drawings are recorded as deferred revenue until such time as the tickets become valid for the most current drawing.

Ticket sales for Fantasy Sports games are based upon MCA 23-4-302 and an interagency agreement between the Lottery and the Board of Horse Racing. The Lottery is only a facilitator of these games and charges an administrative fee for this service. The actual sales of these games are not reflected on the Lottery's financial statements as they are not income to the Lottery.

Classification of Revenues. The Lottery has classified its revenues as either operating or non-operating according to the following criteria:

Operating revenues – include activities that have characteristics of exchange transactions, including (1) ticket sales, net of returns, and (2) retailer license fees and administrative fees in relation to selling lottery tickets.

Non-Operating revenues – include activities that have the characteristics of non-exchange transactions, such as gifts and other revenue sources that are defined as non-operating revenues by GASB No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting," and GASB No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." Types of revenue

sources that fall into this classification are investment income, and gain or loss on disposition of assets.

New Accounting Guidance Implemented. For the year ended June 30, 2013, the Montana Lottery implemented the provisions of GASB Statement No. 63 – "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." The objective of this statement is to standardize the presentation of deferred outflows of resources, deferred inflows of resources, and their effects on a government's net position. For the Lottery, this entailed changing the titles of the financial statements. Also changed were the presentation of the net position section, and the overall accounting formula of the Statement of Net Position. GASB 63 changes the terminology of the different types of net position, which the Lottery has adopted, without any change to the financial information from Fiscal Year 2013.

For the year ended June 30, 2014, the Montana Lottery implemented the provisions of GASB Statement No. 65 – "Items Previously Reported as Assets and Liabilities." This statement essentially changes and redefines the different elements of a financial statement, specifically the Statement of Net Position. The Lottery has adopted this statement by changing the line item of "deferred revenue" to the new title of "unearned revenue" on the Statement of Net Position. This was not a restatement for Fiscal Year 2013 as this only changed the title for the same statement item without changing any amounts.

Free Tickets. Some Montana Lottery scratch games award free tickets as prizes. Net lottery ticket revenue does not include the value of free tickets given away and free plays won. The face value of these free ticket prizes distributed for the quarter ended September 30, 2014 was $127,510.

Promotional Credits. The Lottery issues promotional credits to retailers to be used to distribute free tickets to players. The tickets are distributed as part of a promotion run by the retailer, e.g., "Ask for the Sale" or second chance drawings. The Lottery also directly distributes scratch tickets for promotional purposes at trade shows, for media give-aways, and during new game introductions. The tickets distributed as a result of promotional credits are reflected as a reduction in revenue. The related prize expense and ticket cost for all promotions are reclassified as an advertising expense. For the quarter ended September 30, 2014, promotional credits resulted in a revenue reduction of approximately $5,011 and an expense reclassification of approximately $4,088.

Prizes. Expenses for scratch prizes are recorded based on the predetermined prize structure for each game. Expenses for lotto prizes are recorded based on the predetermined prize structure for each individual game. No prize expense is recorded for free tickets distributed.

Unclaimed Prizes. Prizes for the lotto games must be claimed within six months after the appropriate draw date. Prizes for scratch games must be claimed within six months of the announced end of each game. The unclaimed prize amounts for the Montana Lottery lotto games are taken as a reduction in the Lottery Prizes Payable liability and the Prize Expense and are transferred to the State of Montana General Fund as a portion of the quarterly transfer. The amount of unclaimed prizes for all Montana Lottery games is represented in the table below.

	Quarter Ended 9/30/14	Quarter Ended 9/30/13	Year To Date 9/30/14	Year To Date 9/30/13
Lotto	$100,021	$ 84,727	$100,021	$ 84,727
Scratch	$ 98,397	$106,768	$ 98,397	$106,768
TOTALS	$198,418	$191,495	$198,418	$191,495

2. SUMMARY OF ACCOUNTS

Cash and Cash Equivalents. Cash and cash equivalents consist of interest-bearing deposits with the Montana Board of Investments short-term investment pool, cash on deposit in revolving account with a non-state financial institution and cash on deposit with the Montana State Treasurer that is part of the State's pooled cash and is not separately identifiable as to specific types of securities. These funds are highly liquid and may be drawn on daily.

Cash and cash equivalents consist of the following:

	September 30,	
	2014	2013
Short-term investment pool	$2,416,779	$2,712,845
Cash on deposit with State Treasurer	635,064	3,698,755
Cash in revolving deposit account	10,000	10,000
TOTALS	$3,061,843	$6,421,600

The bank balance of the revolving deposit account, not including outstanding deposits or checks, was $15,969 at September 30, 2014 and was covered by federal depository insurance. The carrying amount reported in the balance sheet for cash and cash equivalents approximates the fair market value.

Receivables. Receivables include $2,415,838, representing amounts due the Lottery for tickets purchased by retailers. An allowance for ticket returns is included in the receivables amount. This allowance represents a reduction in receivables at September 30, 2014, for estimated ticket returns. This is an estimate based on returns received to date, as well as an estimate of tickets unsold by retailers for games that have a public sale end date prior to October 1, 2014. The allowance for ticket returns is $266,875 at September 30, 2014. The return of vendor fees related to the allowance for returns is $15,478.

Inventories. Inventories consist of merchandise and supplies inventories. Merchandise inventory includes scratch tickets valued at $482,873 stored in the warehouse, at retailers prior to being activated by the retailer, and with the marketing representatives. These ticket inventories are recorded at cost using the specific identification method and maintained on a perpetual inventory system. Tickets are charged to cost of tickets sold upon activation or after game end.

Supplies inventories include ticket dispensers, premiums and point-of-sale materials. At September 30, 2014, supplies inventories totaled $85,921. These inventories are also recorded at cost using the specific identification method.

Property and Equipment. A summary of property and equipment for the Lottery is as follows:

	June 30, 2014	Additions	Deletions	June 30, 2014
Leasehold Improvements	$ 59,781	$ -	$ -	$ 59,781
Furniture & Equipment	$ 2,981,106	$ -	$ -	$ 2,981,106
Accumulated Depreciation	$(2,085,091)	$ (126,753)	$ -	$(2,211,844)

Transfer Obligations. The account "Transfer Obligations" is $2,554,851 payable to the General Fund at September 30, 2014.

Compensated Absences. State employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. With no limit on accumulation, sick leave is earned at 12 days per year. Upon retirement or termination, an employee is paid 100% for unused vacation and 25% for unused sick leave. The Lottery's liability for compensated absences is detailed below.

Balance June 30, 2014	Net Leave Earned/(Used)	Balance September 30, 2014
$216,210	$(27,390)	$188,820

Commissions. Section 23-7-301(10), MCA, provides retailers a commission on scratch and lotto tickets or chances sold. The Lottery Commission established this commission at 5% of the face value of scratch tickets activated by the retailers and the face value of lotto tickets sold. Section 23-4-302 (5)(b)(i), MCA establishes a 3.99% commission of the face value of Fantasy Sports tickets sold. In addition retailers can earn bonus commissions on tickets sold based on incremental sales of scratch tickets. For the quarter ended September 30, 2014 retailers earned bonus commissions of $99,369. For the quarter ended September 30, 2014 total commissions were $713,301.

OPEB (Other Post Employment Benefits) Implicit Rate Subsidy LT. Effective for Fiscal Year End 08, GASB Statement 45 and the reporting requirements for the "implied rate subsidy" required the State of Montana to book substantial liabilities. The liability is a result of the state's requirement to allow retired employees to remain in the retirement plan after retirement. This results in an implicit rate subsidy since retirees pay the same amount as active employees. "Actuaries Northwest" prepared the report for the State of Montana to calculate the Annual Required Contribution under the Governmental Accounting Standards Board (GASB). The allocation is made based on the fiscal year's benefits expense and the number of full time employees for an agency.

The Lottery's OPEB obligations for 2014 and 2013 are as follows:

Year ended June 30,	2014	2013
Annual Required Contribution	$ 108,929	$ 101,836
Adjustment to annual required contributions	-	-
Annual OPEB cost	$ 108,929	$ 101,836
Contributions made	-	-
Increase to net OPEB obligation	$ 108,929	$ 101,836
Net OPEB obligation – beginning of year	$ 589,890	$ 488,054
Net OPEB obligation – end of year	$ 698,819	$ 589,890

3. PAYMENTS TO OTHER STATE AGENCIES

The Lottery receives a variety of services, supplies, and materials from other state agencies. These services and materials are detailed below for the quarter ended September 30, 2014:

Insurance	$ 10,976
Warrant Writing Services	83
Payroll Services	1,841
Audit Fees	4,143
Computer Fees	10,504
State Accounting System Support	765
Mail Processing Fees	3,125
Telecommunications	2,265
Other	51
Administrative Service Fees	16,205
TOTAL	$ 49,958

4. PRIZES

Paid Prizes. Section 23-7-402, MCA states, "A minimum of 45% of the money paid for tickets or chances must be paid as prize money". Prize expense is recorded based on the predetermined prize structure percentage for each game less unclaimed prizes. For the quarter ended September 30, 2014, the prize expense of $6,992,176 is 57.8% of net Lottery ticket revenue of $12,091,934.

5. TRANSFER TO STATE GENERAL FUND

Section 23-7-402(3), MCA, states "That part of all gross revenue not used for payment of prizes, commissions, and operating expenses, together with the interest earned on the gross revenue while the gross revenue is in the enterprise fund, is net revenue. Net revenue must be transferred quarterly from the enterprise fund established by 23-7-401 to the State General Fund." For the quarter ended September 30, 2014, the net revenue payable to the State General Fund totaled $2,554,851.

6. MULTI-STATE LOTTERY

In November 1989 the Montana State Lottery joined the Multi-State Lottery Association (MUSL). MUSL was created in September 1987 to operate a multi-state lottery game for the benefit of party lotteries. Powerball, Wild Card, Hot Lotto, and Mega Millions are the games jointly operated by the members, in which Montana presently participates. Each lottery participating in MUSL is represented on the Board of Directors.

The Multi-State Lottery Reserve Fund with a balance of $1,396,105 and $1,678,956 as of September 30, 2014 and 2013, respectively, is comprised of several reserve accounts, which are maintained by the Multi-State Lottery Association (MUSL). The balance of these reserve accounts is as follows:

	September 30, 2014	September 30, 2013
Powerball Prize Reserve Account	$ 484,027	$ 521,972
Powerball Set Prize Reserve Account	210,447	234,139
Powerball Unreserved Account	173,024	207,139
Wild Card Prize Reserved Account	54,855	195,108
Hot Lotto Set Prize Reserve Account	297,464	337,005
Mega Millions Prize Reserve Account	176,288	183,593
Total	$1,396,105	$1,678,956

The Powerball Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Powerball game, assuming that no unanticipated prize claims have been paid. Interest earned on the Lottery's share of the fund, represented by the Unreserved Account, would be returned to the Lottery upon leaving MUSL. The amounts in the Unreserved Account may be used at the MUSL Board's discretion.

The Powerball Set Prize Reserve Account is used to fund prize payments for current drawings. Since the Powerball game has fixed prizes, it is often necessary to draw from this reserve to fund payment of prizes at the fixed amount. This account would be returned to the Lottery upon withdrawal from the Powerball Game.

The Lottery contributes to these reserve funds through the 50% set aside for prizes. In addition the Lottery was required to contribute for its portion of the reserve funds accumulated since the start of the Powerball game. Payments made to this fund are considered a portion of prize expense associated with the game.

The Powerball Unreserved Account is a separate account used by a participating Lottery to have MUSL hold funds due to the Lottery. Balances in this account are created when any MUSL jackpot expires and goes unclaimed. Each Lottery is then refunded its pro rata share of the jackpot based on sales during the accumulation of that specific jackpot. This money is then invested in U.S. Treasury securities until withdrawn. Interest earned on the Lottery's share of the fund is added to the Unreserved Account on a quarterly basis. The amount in the Unreserved Account

has limited uses and are set and approved by the Board with the stipulation that requests to use the funds are accompanied by certification from the requesting Board Member that the payment is made in conformance with state or jurisdiction law and is related to a MUSL activity.

The Wild Card Reserve Account is to be used in the event of an unanticipated prize claim on the Wild Card game. This account is also administered by MUSL and would be returned to the Lottery one year after the Wild Card Product Group of Idaho, Montana, South Dakota, and North Dakota is disbanded. The Lottery contributes to this account through the 57% set aside for prizes. Payments made to this fund are considered a portion of prize expense related to the Wild Card game.

The Hot Lotto Set Prize Reserve Account is administered by MUSL and is to be used only in the event of unanticipated prize claims. Like other MUSL games the reserve amount would be returned to the Lottery one year after withdrawal from the Hot Lotto game. The Lottery contributes to the reserve through the 50% set aside for prizes. Payments made to the reserve are considered a portion of the prize expense related to the game.

The Mega Millions Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Mega Millions game, assuming that no unanticipated prize claims have been paid. The Lottery contributes to the reserve through the 51% set aside for prizes for Mega Millions plays and 50% for Megaplier plays. Payments made to the reserve are considered a portion of the prize expense related to the game. The Lottery had just started cross-selling Mega Millions during the fiscal year end 2010.

7. GAMES

Currently, the Montana Lottery games are scratch ticket games, seven lotto games referred to as Powerball, Montana Ca$h, Wild Card, Hot Lotto, Mega Millions, 10 Spot, and Montana Millionaire, a limited edition lottery game. The lottery is facilitating Fantasy Sports Games on behalf of the Board of Horse Racing. Currently the Lottery is selling the Montana Sports Action Fantasy Football and the Racing games.

Scratch ticket games provide players the opportunity to win instantly by scratching latex covering to reveal a prize.

The Powerball game allows players the chance to win a minimum pari-mutuel jackpot of approximately $40 million. A player must match all 6 numbers to win the jackpot. Players win prizes ranging from $4 to $1,000,000 for matching fewer than all 6 numbers. Drawings are held twice weekly on Wednesday and Saturday nights. For any drawing, if no ticket matches 6 out of 6 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot. In March 2001, the Lottery added Power Play to the Powerball game. For an additional $1 per play, the Power Play doubles the Match 5 prize from $1 million to $2 million and increases other prizes as well.

The Montana Ca$h game allows players the chance to win a minimum pari-mutuel jackpot of $40,000. Players select 5 numbers from a field of 45 and must match at least 2 out of 5 to win a prize. Matching 2 of 5 wins $1, 3 of 5 wins $5 and 4 of 5 wins $200. The drawing is conducted twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot.

The Wild Card game allows players the chance to win a pari-mutuel jackpot, with a guaranteed minimum of $200,000. Players select 5 numbers from a field of 33 plus one of 16 face cards and must match all 5 numbers and the wild card to win the jackpot; players win prizes from $1 to $6,000 for matching less than all 5 numbers and/or the wild card. Drawings are held twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers and the wild card, the jackpot rolls over to the next drawing to create a progressive jackpot.

Hot Lotto allows players in the 16 participating lotteries a chance to win an all-cash pari-mutuel jackpot with a guaranteed minimum of $1 million, plus tax withholdings paid. This change was implemented May 2013. Each time the jackpot is not won, it grows, thus creating a progressive jackpot. Players choose five numbers from 1 to 47, and one Hot Ball number from 1 to 19. To win the pari-mutuel jackpot, a player must match all six numbers. If a player chooses, for an additional bet amount, to add Sizzler to their ticket, any prize except the jackpot is multiplied by three. Drawings are held twice weekly on Wednesday and Saturday nights.

Mega Millions is a multi-state game that allows players to win a minimum pari-mutuel jackpot starting at $12 million. Mega Millions went on sale March 1, 2010 in Montana. To win the jackpot, players must match all six numbers drawn; other prizes range from $2 to $250,000. Drawings are held each Tuesday and Friday. Mega Millions has a Megaplier option which multiplies non-jackpot prizes by two, three, or four. The Megaplier options costs $1 extra per play.

10 Spot, which went on sale February 1, 2010, is a Montana-only, twice daily game. Players select ten numbers from one through eighty. The Lottery draws twenty numbers, and players win by matching ten, nine, eight, seven, six, five, or none of the numbers drawn. Prizes range from $2 to $25,000.

Montana Sports Action is a product line introduced by the Lottery in August 2008 on behalf of the Board of Horse Racing. Montana Sports Action Fantasy Football was the first game within the Fantasy Sports Games to begin. Players choose five eligible offensive players and a defensive unit from the official roster of professional football players and teams, to create their own team. The players then choose a play amount ($5, $10, $20, $50, or $100) which determines the shares the player is eligible to win should their team have one of the three highest point totals for the week.

After completion of each week's professional football games, points are assigned to football players and defensive units based on their performance to determine the Lottery players' team's performance. Prizes paid must be 74% of sales for the week. How much the player wins is determined by their team's points and their share ($5 per share). Ticket sales are allowed each week of the professional football season beginning Tuesday morning for that week's games with no advanced purchasing allowed.

Fantasy Racing was introduced in February 2009, and follows the NASCAR® Sprint Cup Series. Fantasy Racing teams are created by selecting a driver from the top nine-ranked drivers for the week; three drivers ranked from ten through 34; and one driver ranked 35 or above. The sixth element in a player's Fantasy Racing team is the number of yellow-flag cautions the player believes might occur in that week's race. Players also choose the number of shares they wish to buy ($5, $10, $20, $50 or $100). Like Fantasy Football, the number of shares determines the amount of the prize each winning ticket will win. After each Sprint Cup race, points are assigned to each driver's performance, and teams with the top three point totals win. Ticket sales begin each week on Monday.

Montana Millionaire is a seasonal raffle-type game offering a $1 million top prize. The first offering went on sale October 1, 2007. The lottery has sold the game every winter since. Tickets are sold sequentially, and the 2013 game offered 130,000 tickets, which sell for $20 each. Early bird drawings for $10,000 were offered on Thanksgiving weekend and the second week of December to stimulate early sales. There were also 200 $50 instant winners and 500 $500 instant winners. Available tickets for the game sold out prior to the expected end of the game, selling out on December 26, 2013. On January 1, 2014, one $1 million prize was awarded, along with two $100,000 prizes and three $10,000 prizes. Montana Millionaire is scheduled to sell from November 1 through December 3, 2014, with a drawing on New Year's Day 2015.

8. COMMITMENTS - GAMING SUPPLIER CONTRACTS

Scratch Tickets. On June 27, 2008 the Montana Lottery Commission approved the award of a five-year contract with Scientific Games International (SGI) for the provision of scratch tickets. The contract is for five years with the option for two additional one-year renewals. The contract contains specifications regarding ticket design, printing, game ownership, inspection, and prize structure.

SGI, as the vendor, provided a performance bond covering the contract term and an errors and omissions policy covering an ultimate net loss of $3,000,000. The Lottery may terminate this contract by providing proper notification to Scientific Games.

On-line Services. On October 11, 2005, the Lottery signed a seven-year contract with Intralot, Inc. of Duluth, GA to provide an on-line gaming system and the associated services beginning March 31, 2006. The contract requires Intralot to provide new terminals to all retailers with the associated software and communications. Payment under the contract is based on 5.8% of net weekly Lottery sales of lotto and scratch games. On August 18, 2008 an addendum was signed to provide services for the Fantasy Sports games at 3% of net weekly Lottery sales up to $2,999,999 of Montana Sports Action games. The contract currently has a termination date of March 30, 2016.

9. LOTTO*AMERICA/POWERBALL/TRI-WEST JACKPOT PRIZES

Jackpot prizes awarded in the Lotto*America/POWERBALL and TRI-WEST LOTTO games are funded through the purchase of U.S. Treasury Zero-Coupon Bonds purchased in the name of the Montana Lottery by MUSL. MUSL will cash the bonds each year as they mature and will wire the funds to the Lottery for payment to winners on the Anniversary date of the win.

On January 13, 1990 the Montana Lottery awarded its first Lotto*America jackpot prize totaling $1,740,000. The first annual payment of $87,000 was made on February 1, 1990. On May 9, 1990 the Lottery awarded a second Lotto*America jackpot prize of $3,000,000. The first annual payment of $150,000 was made on May 23, 1990. A third jackpot prize was awarded on February 2, 1991 for $7,360,000. The first annual payment of $368,000 was made February 15, 1991. On November 23, 1991 a fourth jackpot prize was awarded totaling $46,967,738.57. The first annual payment of $2,355,738.57 was made December 12, 1991. On April 11, 1992 a fifth jackpot prize was won totaling $2,000,000. The first annual payment of $100,000 was made on April 27, 1992.

On July 6, 1994 the Montana Lottery awarded its first Tri-West Lotto jackpot prize totaling $700,565. The first annual payment of $35,000 was made on July 26, 1994.

On July 22, 1995 the Montana Lottery awarded its first Powerball jackpot prize totaling $31,401,655.99. The first payment of $1,571,655.99 was made on August 8, 1995. On April 5, 1997 the Lottery awarded a second Powerball jackpot prize totaling $11,000,000. The first annual payment of $550,000 was awarded on April 18, 1997.

On March 27, 1999 the Montana Lottery had a Powerball jackpot winner. The prize was $35.1 million ($19.35 million cash option). The winner chose the cash option and was paid a lump sum in June 1999.

On June 23, 2010 the Montana Lottery awarded its fourth Powerball jackpot prize. The total jackpot was $96,856,406 and was split between another ticket in Ohio. Half of the jackpot, which was again split between two winners in Montana, totaled $48.5 million (25.08 million cash option). The winners chose the cash option and were paid a lump sum in July 2010.

As of September 30, 2014, the combined total of future prize payments funded through the purchase of U.S. Treasury Zero-Coupon Bonds for Powerball winners was $1,100,000. Total annual payments due as of June 30, 2014 are as follows:

FYE	
2015	550,000
2016	550,000
	$ 1,100,000

10. LEASES/INSTALLMENT PURCHASES PAYABLE

Rent. The Montana Lottery leases its office, administrative and warehouse facilities under a lease agreement that is effective September 2007 through August 2017. The monthly lease payment is $12,492 through August 2015. The base rate will increase 3% annually.

Capital Lease. The Lottery has contracted with its vendor to lease equipment for the remaining life of its contract with them. Obligations under this capital lease/installment purchase at September 30, 2014 are as follows:

FYE	
2015	57,757
2016	55,423
Total Minimum Payments	113,180
Less: Interest	(4,928)
Present value of Minimum Payments	$ 108,252

11. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the State of Montana implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*. The Lottery participates in two investment pools: the Multi-State Lottery Association (MUSL) reserve accounts and the State of Montana's Short Term Investment Pool (STIP). There are four types of risk that must be disclosed. These risks are defined below, followed by their applicability to each of the investment pools.

Multi-State Lottery Association The MUSL investment policy for prize reserve and unreserved funds states that permitted investments "include direct obligations of the United States government, perfected repurchase agreements, and obligations issued or guaranteed as to payment of principal and interest by agencies or instrumentalities of the United States government, and mutual funds of approved investments".

Short-term Investment Pool All short-term funds are held in the State's Short Term Investment Pool (STIP) administered by the Board of Investments (BOI). STIP is an external 2a-7 like pool.

Credit risk is defined as the risk that an issuer of an investment will not fulfill its obligation, i.e., not make timely principal and interest payments. The STIP securities have credit risk as measured by major credit rating services, however, the pool is not rated. The Lottery does not have a policy regarding credit risk

Per MUSL, the prize reserves held on behalf of the Montana Lottery are invested in the Montana Winners Trust and include 13% in securities held as obligations of the U.S. Government and are not considered to have credit risk. The other 87% of the prize reserves are invested in Federal Agencies and have an AAA credit quality rating. The Lottery does not have any authority or a policy regarding the investment portfolios.

Custodial credit risk is the risk that the Lottery would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party in the event of the failure of that party. Custodial credit risk does not apply to STIP because it is a 2a-7 like pool.

The MUSL prize reserves are held in the Montana Winners Trust using policies set forth by the MUSL board regarding policies for the type of securities, as well as the custody, trading and the use of proceeds of the securities. The Lottery does not have any authority or a policy regarding the investment portfolios.

Concentration of credit is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Because STIP is a pooled investment, this risk does not apply. Because the MUSL reserves are also a pooled investment, this risk does not apply to them either.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk does not apply to STIP because it is a 2a-7 like pool.

The MUSL prize reserves are invested through the Montana Winners Trust in the Morgan Stanley Government Portfolio Funds with daily liquidity and therefore have no interest rate risk. The MUSL board's investment policy limits the individual security and the portfolio's maturity. As of June 30, 2014, the duration for the U.S. Government Treasury securities was 1.34 years.

12. EMPLOYEE RETIREMENT PLAN

All Lottery employees hired are, initially, members of the Public Employees Retirement System – Defined Benefit Retirement Plan (PERS-DBRP). PERS-DBRP is a defined benefit cost sharing, multiple-employer public retirement system established on July 1, 1945 and governed by Title 19, chapters 2 & 3 of the Montana Code Annotated. This plan provides retirement, disability and death benefits to substantially all public employees and their beneficiaries not covered by another public plan.

New hires have a 12 month window during which they may choose to transfer to the Public Employees Retirement System – Defined Contribution Retirement Plan (PERS-DCRP) or remain in the current PERS-DBRP. Members may not be members of both plans. The choice is irrevocable. Members of the DCRP direct their contributions and a portion of their employer's contributions among the offered investment options. The remaining portion of their employer's contributions is used to reduce the Plan Choice Rate unfunded actuarial liability, to fund the long-term disability benefits to participants of the DCRP, and to fund an employee education program.

-Alternative accessible formats of this document will be provided upon request.